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| <b>Committee:</b>   | <b>Date:</b>   |
| Resource Allocation Sub Committee<br>Policy and Resources Committee                                       | 10 December 2020<br>10 December 2020   |
| <b>Subject:</b><br>Capital Funding – Prioritisation of 2021/22 Annual<br>Capital Bids – Stage 2 Proposals | <b>Public</b>  |
| <b>Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?</b> | These capital bids span all 12 outcomes of the Corporate Plan to some degree |
| <b>Does this proposal require extra revenue and/or capital spending?</b>                                  | Yes  |
| <b>If so, how much?</b>   | £99.1m   |
| <b>What is the source of Funding?</b>   | Specific funding sources have been identified as detailed in the report      |
| <b>Has this Funding Source been agreed with the Chamberlain’s Department?</b>                             | Yes  |
| <b>Report of:</b> The Chamberlain   | <b>For Decision</b>  |
| <b>Report author:</b> Dianne Merrifield, Group Accountant (Capital)                                       |  |

### Summary

Members will recall that the annual capital bid process was introduced as a means of prioritising the allocation of central funding for capital schemes. In this second year, the process has been refined to allow additional consultation with senior Members and Chief Officers and also with Service Committee Chairs via the bilateral process. The ranking and prioritisation presented in this report is therefore an agreed position, demonstrating the increasing maturity of the annual bid process.

In October, Members were advised of £104.8m of bids relating to projects of a capital nature. Based on the narrative supporting the bids, an assessment of how essential these schemes appear from a corporate perspective was undertaken using a RAG rating approach - resulting in £82.4m green, £14.1m amber and £8.3m red. Of the £82.4m green, £45.5m related to business as usual (BAU) and £36.9m to Climate Action.

Members agreed that this level of bids was unsustainable and therefore Chief Officers, in consultation with Service Committee Chairs, were requested to further consider priority ranking of schemes to identify the most critical bids. Members also agreed in principle that only the most urgent bids (rated green) should be progressed with those with a final rating of amber or red to be deferred.

Since then, through consultation it has been possible to reach an agreed position on the most urgent schemes and the Climate Action bids have been updated to accord with the latest position.

In addition, the City of London School for Girls (CLSG) has now re-ignited the previous RASC approval to a loan facility of up to £15.6m for their revised expansion plans - to

provide start-up funding for a new preparatory school (possibly as a joint venture with the City of London School (CLS)) and associated works to optimise the existing CLSG school site. At the time of preparing this report the amount is indicative subject to formal Board approval(s).

The updated bid position is set out in the table below:

| Analysis by Category                   | Green<br>£000 | Amber<br>£000 | Red<br>£000 | Total<br>Capital Bids | Net<br>change |
|--|---------------|---------------|-------------|-----------------------|---------------|
| <b>Total BAU</b>                       | 40,663        | 13,345        | 5,750       | 59,758                | - 8,177       |
| <b>Climate Action</b>                  | 42,820        | -             | -           | 42,820                | 5,938         |
| <b>Total Bids before Loan Facility</b> | 83,483        | 13,345        | 5,750       | 102,578               | - 2,239       |
| <b>Loan Facility</b>                   | 15,600        | -             | -           | 15,600                | 15,600        |
| <b>Total Central Funding Required</b>  | 99,083        | 13,345        | 5,750       | 118,178               | 13,361        |
| <i>Net change since October</i>        | 16,651        | - 725         | - 2,565     | 13,361                |               |

Following the in principle decisions of RASC in October, this means that green bids totalling £83.5m (BAU £40.7m, Climate Action £42.8m) would be recommended for progression, together with the re-ignited loan facility of £15.6m, and red/amber bids of £19.1m would not be progressed at this time. The latest position represents a small net overall *increase* of £1m in green-rated bids since October which is somewhat contrary to expectations, however this is largely due to inclusion of £15.6m for the loan facility, representing cash flow support repayable within 7 years. The underpinning business as usual green rated bids have reduced by £8m.

Members will need to consider whether £83.5m of new capital spend is affordable, sustainable and prudent over the short to medium term – that it is deliverable and value for money, balancing the essential nature of the green bids (largely driven by health and safety/statutory/critical replacement needs) against the requirement to ensure that there is sufficient headroom to support future priorities.

In this regard the following is noted:

Within the £83.5m of green bids there are two exceptional items which mask the underlying level of the BAU request:

- i. £42.8m for Climate Action makes up almost half of the total value of the green bids which Members have agreed should be afforded the highest priority (although not at the expense of essential services).
- ii. £20m for the replacement of Fire Doors on the Barbican Estate which is a high profile, high priority health and safety scheme in the wake of the Grenfell fire.

The remaining green BAU bids amount to £20.7m across 23 schemes which demonstrates a more reasonable underlying level of essential schemes.

Furthermore, although these schemes are to commence during 2021/22, costs are anticipated to be incurred over the medium term as the typical lead-in time for projects mean that they routinely span across more than one financial year. Whilst this does not reduce the overall funding burden it potentially makes it more manageable, providing opportunity to accumulate any underspends towards costs in the later years, by which time some of the Climate Action savings should be realised.

Looking at affordability within each fund:

- £65.1m for **City Fund** is a challenge presenting some risk in the context of other financial pressures but it has been possible to accommodate a significant element of the funding requirement across a range of ring-fenced sources to spread this risk. This leaves a forecast draw down of £25m from the capital reserves which is considered prudent, based on the current anticipated capital reserve balances by the end of the planning period (c£70m). However, mitigating actions will be needed to supplement capital reserves through renewed efforts to identify surplus operational properties for disposal and to ensure that energy savings are realised through the Climate Action interventions.
- The latest version of the **City's Cash** MTFP indicates a prudent level of capital investment to be £10m, so a sum of £33.3m for City's Cash appears excessive. However, after allowing for the £15.6m loan repayable within 7 years and energy savings from climate action initiatives, the residual sum is considered to be manageable over the medium term providing future year's bids BAU bids are maintained at the current level.
- £620k for **Bridge House Estates** is a modest sum which is considered to be affordable.

Based on the above, Members should therefore note that the plans would be affordable, sustainable and prudent in the context of wider medium-term financial plans.

Approval of bids is 'in principle' at this stage, with drawdown from 1<sup>st</sup> April 2021 onwards being subject to progression via the normal gateway process including further approval by the Resource Allocation Sub and Policy and Resources Committees at Gateway 4(a).

Financial disciplines currently in place are proposed to be continued, including that funding will be withdrawn for centrally funded schemes that slip by more than one year and the ongoing operation of the 'one-in, one-out' approach to funding bids outside of the annual process.

Approval to the continuation of the loan facilities for the Police and HRA is also sought. £37m was approved across the medium term as part of last year's annual bid process of which £5m has so far been allocated for police in the current year. Current forecasts suggest a loan requirement of £5m for police and £25-£30m for HRA, which means that the £32m provision still seems reasonable, subject to confirmation when the service committee estimates are approved.

### **Recommendation(s)**

Members are asked to:

1. Note and agree that the plans would be affordable, sustainable and prudent (refer to paragraphs 8-15).
2. Consider the green rated bids amounting to £83.5m detailed in the attached appendix , which represents the position agreed with Chief Officers and Service

Committee Chairs, together with the re-ignited bid for loan funding of £15.6m for the City of London School for Girls.

3. Agree that provisions of £83.5m plus a loan facility of up to £15.6m (indicative at this stage) be made in the draft medium term financial plans of the three funds and that appropriate contingencies be set aside for approval by the Finance Committee and Court of Common Council as part of the annual budget setting process.
4. Request that the Corporate Asset Sub and Projects Sub Committees closely scrutinise the scope of the St Lawrence Jewry repairs project to ensure that all value engineering opportunities are fully explored, with a keen eye on value for money.
5. Agree that the bids rated as amber detailed in the appendix be placed on a reserve list to be funded from savings in provisions for green rated schemes should their urgency escalate.
6. Agree that the financial disciplines currently in place be continued, whereby
  - central funding will be withdrawn for schemes that slip by more than one year; and
  - the operation of the 'one-in, one-out' approach to funding of bids outside of the annual process.
7. Agree to the carry- over of the unallocated provision of £32m of loan facilities previously agreed for the Police and HRA.

## **Main Report**

### **Background**

1. Departments submitted 51 bids for central capital funding from 2021/22 amounting to £146m of which £76m (13 bids) related to the Climate Action Strategy. The initial sift identified £104.8m relating to projects of a capital/SRP nature, with the remainder of £41m falling outside the scope of the capital funding bid process.
2. Most of the £104.8m of capital bid submissions were classified as essential and identified against one of the agreed prioritisation criteria. Based on the narrative supporting the bids, an assessment of how essential these schemes appear from a corporate perspective was undertaken using a RAG rating approach where:

|   |                |
|---|----------------|
| Green = demonstrates the essential criteria   | £ 82.4m        |
| Amber = essential criteria less clear         | £ 14.1m        |
| Red = does not demonstrate essential criteria | <u>£ 8.3m</u>  |
|   | <u>£104.8m</u> |
3. In October, Members of Resource Allocation Sub Committee:
  - Agreed that the remaining £104.8m of capital bids was currently unsustainable and therefore Chief Officers, in consultation with Service Committee Chairs, be requested to further consider ranking of schemes to

identify the most critical bids, with innovation and reputational impact uppermost.

- Subject to the outcome of Chief Officer rankings, agreed in principle that bids with a final RAG rating of amber and red be deferred.
- Noted that the Climate Action Strategy bids would be subject to further review to confirm the priority of proposals.

## Current Position

4. Since October, the following has taken place:

- Further consultation with Chief Officers and Service Committee Chairs on the priority rankings to agree the green ranked BAU bids.
- The Climate Action Team has critically reviewed the bid submissions in the context of the approved Climate Action Strategy and the figures now included accord with the latest position. It should be noted that funding for the ring-fenced services are excluded from this bid for central funding, including the HRA allocation of £2.12m.
- The City of London School for Girls (CLSG) has re-ignited a bid previously agreed by RASC for a loan facility of up to £15.6m to provide start-up funding for a new preparatory school (possibly as a joint venture with the City of London School (CLS)) and associated works to optimise the existing CLSG school site. At the time of preparing this report the above was an indicative position subject to formal Board approval(s).

This has resulted in a net reduction of £2.2m in capital bids, from £104.8m in October to £102.6m (BAU decrease of £8.1m partially offset by an increase of £5.9m in Climate Action bids) together with £15.6m for the re-ignited loan facility. The revised assessment is as follows:

| Analysis by Category                   | Green<br>£000 | Amber<br>£000 | Red<br>£000    | Total<br>Capital Bids | Net<br>change  |
|--|---------------|---------------|----------------|-----------------------|----------------|
| <b>BAU:</b>                            |               |               |                |                       |                |
| Critical End of Life Replacement       | 2,858         | 3,200         | -              | 6,058                 | -              |
| Statutory Compliance/Health and Safety | 32,341        | 9,645         | 400            | 42,386                | - 6,177        |
| High Profile Policy Initiative         | 5,089         | -             | -              | 5,089                 | -              |
| Spend to save with a payback < 5 years | 375           | 500           | 5,350          | 6,225                 | - 2,000        |
| <b>Total BAU</b>                       | <b>40,663</b> | <b>13,345</b> | <b>5,750</b>   | <b>59,758</b>         | <b>- 8,177</b> |
| <b>Climate Action</b>                  | <b>42,820</b> | <b>-</b>      | <b>-</b>       | <b>42,820</b>         | <b>5,938</b>   |
| <b>Total Bids before Loan Facility</b> | <b>83,483</b> | <b>13,345</b> | <b>5,750</b>   | <b>102,578</b>        | <b>- 2,239</b> |
| <b>Loan Facility</b>                   | <b>15,600</b> | <b>-</b>      | <b>-</b>       | <b>15,600</b>         | <b>15,600</b>  |
| <b>Total Central Funding Required</b>  | <b>99,083</b> | <b>13,345</b> | <b>5,750</b>   | <b>118,178</b>        | <b>13,361</b>  |
| <i>Net change since October</i>        | <i>16,651</i> | <i>- 725</i>  | <i>- 2,565</i> | <i>13,361</i>         |                |

With a slightly refined definition where:

Green = demonstrates the essential criteria *for the highest priority bids*

Amber = essential criteria less clear */lower priority, less urgent bids*

Red = does not demonstrate essential criteria.

5. Following the decisions of RASC in October, this means that green bids totalling £83.5m (BAU £40.7m, Climate Action £42.8m) would be recommended for progression, together with the loan facility of £15.6m and red/amber bids of £19.1m would not be progressed at this time.

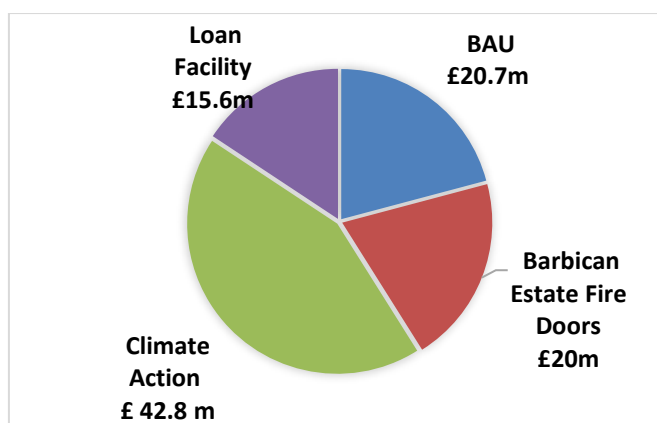
6. A schedule of the green bids is appended to the report for review. However, there is one particular bid to draw to Members' attention re top-up funding of £2.6m for the St Lawrence Jewry Church repairs (in addition to the £2m of 'in principle' funding previously agreed). This was moved from red to green following the City Surveyor's top priority ranking and brings the total cost of the works to £4.6m. Whilst the works are clearly essential on health and safety grounds, there is nevertheless a challenge regarding the significant cost – to be funded in-full from City's Cash resources. To address this concern it is therefore proposed that the Corporate Asset Sub and Projects Sub Committees be requested to closely scrutinise the scope of the works to ensure that all value engineering opportunities are fully explored, with a keen eye on value for money.
7. A further proposal was also discussed with Chief Officers, to recognise that the amber bids (£13.3m) are essential and will need to be funded at some time. It is proposed that they be placed on a standby list so that in the event of a green bid being later withdrawn or costing less, the funding headroom could be diverted to allow an amber scheme to be taken forward should it become more urgent (i.e. following the principle of 'one-in, one-out').

### Consideration of Green Bids

8. Whilst the net cost of *green* BAU bids has decreased by £4.9m, Climate Action bids have increased by £5.9m, a small net *increase* of £1m since October, which is somewhat contrary to expectations, plus cash flow funding of £15.6m for a loan facility repayable within 7 years. **Members will therefore need to consider whether £83.5m of new capital spend is affordable, sustainable and prudent** over the short to medium term – that it is deliverable and value for money, balancing the essential nature of the green bids (largely driven by health and safety/statutory/critical replacement needs) against the requirement to ensure that there is sufficient headroom to support future priorities. In addition, provision for the loan facility of £15.6m will also need to be factored in. The following considerations should be taken into account:
  - To set these bids in to some context, £89m (excluding internal loan facilities) was approved in principle for the 2020/21 capital bids. However, at that time it was anticipated that such a high level was exceptional and not sustainable on an ongoing basis alongside other financial priorities and pressures, such as the major projects and balancing the revenue budgets.
  - Analysis of centrally funded schemes over recent years gives a broad average of £30m per annum which may suggest that the current level of bids is high.
  - However, within the £83.5m of green bids there are two exceptional items which mask the underlying level of the BAU request:
    - i. £42.8m for Climate Action makes up almost half of the total value of the green bids. These arise from the high profile, high priority and ambitious strategy which aims to lead by example to deliver longer term benefits and future revenue savings which have yet to be quantified. Members have agreed that Climate Action

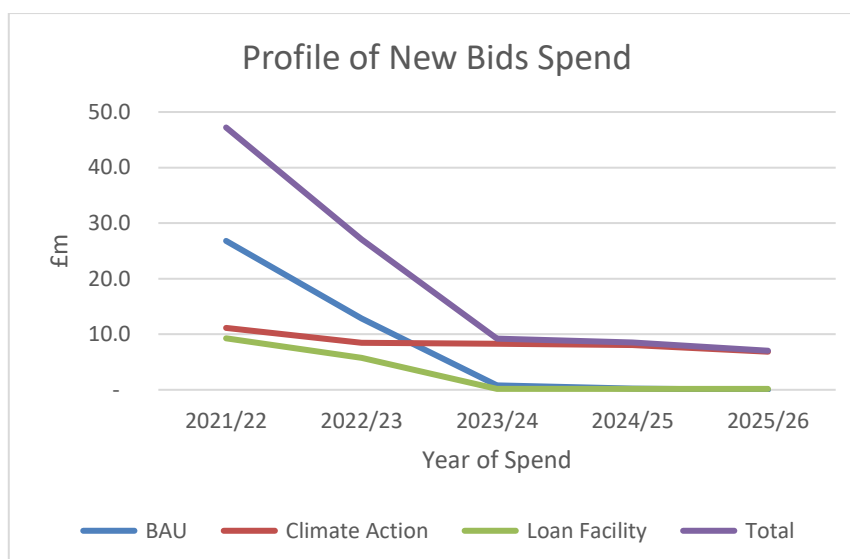
should be afforded the highest priority (although not at the expense of essential services).

- ii. £20m for the replacement of Fire Doors on the Barbican Estate which is a high profile, high priority health and safety scheme in the wake of the Grenfell fire.
- In addition provision for the loan facility of £15.6m also needs to be factored in.
  - i. Members may recall that a loan facility of £15.3m was previously agreed for the CLSG expansion proposal which was subsequently dropped. Pending development of a revised CLSG expansion plan, £10.6m from this loan facility was reallocated for the Boys' School Master Plan. CLSG has now developed a revised expansion plan involving a property previously used for education purposes that can be fairly easily and speedily adapted for a new preparatory school (possibly in collaboration with CLS) in time for a September 2022 intake, together with associated works to optimise the existing site. This requires a loan facility of the order of £15.6m repayable over 7 years and therefore in principle approval to effectively re-ignite the previous loan facility is sought at this stage. All of the above is indicative at this stage and subject to various Board approvals. A further report will be submitted in due course to confirm the amount and repayment period once the detailed financial modelling is complete and the business case developed.



As can be seen from the chart, the remaining green BAU bids amount to £20.7m across 23 schemes which demonstrates a more reasonable underlying level of essential schemes.

- It should be noted that although these schemes are to commence during 2021/22, costs are anticipated to be incurred over the medium term as the typical lead-in time for projects mean that they routinely span across more than one financial year. In particular, the costs of the Climate Action bids are spread fairly evenly across the planning period, whereas the BAU schemes are more front-ended.



Whilst this does not reduce the overall funding burden it potentially makes it more manageable, providing opportunity to accumulate any underspends towards costs in the later years, by which time some of the Climate Action savings should be realised.

## Affordability

9. In order to further assess affordability, the £83.5m of green bids (BAU £40.7m, Climate Action £42.8m) together with the loan facility of £15.6m have been identified against the relevant fund as summarised below:

| Analysis of GREEN Bids by Category/ Fund | City Fund<br>£000 | City's Cash<br>£000 | BHE<br>£000 | Total<br>Capital Bids |
|--|-------------------|---------------------|-------------|-----------------------|
| <b>BAU:</b>                              |                   |                     |             |                       |
| Critical End of Life Replacement         | 1,663             | 1,127               | 68          | 2,858                 |
| Statutory Compliance/Health and Safety   | 25,577            | 6,736               | 28          | 32,341                |
| High Profile Policy Initiative           | 4,739             | 350                 | -           | 5,089                 |
| Spend to save with a payback < 5 years   | 194               | 181                 | -           | 375                   |
| <b>Total BAU</b>                         | 32,173            | 8,394               | 96          | 40,663                |
| <b>Climate Action</b>                    | 32,925            | 9,351               | 544         | 42,820                |
| <b>Total Bids before Loan Facility</b>   | 65,098            | 17,745              | 640         | 83,483                |
| <b>Loan Facility</b>                     | -                 | 15,600              | -           | 15,600                |
| <b>Total Central Funding Required</b>    | <b>65,098</b>     | <b>33,345</b>       | <b>640</b>  | <b>99,083</b>         |
| <i>Net change since October</i>          | +4,634            | +1,297              | +120        | +6,051                |

## City Fund

10. The level of City Fund green capital bids has increased overall by £4.6m to £65.1m since October, comprising an increase of £9.2m in Climate Action, partially offset by a reduction of £4.6m in BAU. The following funding sources have been identified:



| <b>City Fund Green Bids - Possible Funding Sources</b> | <b>BAU</b>    | <b>Climate Action</b> | <b>Total</b>  |
|--|---------------|-----------------------|---------------|
| CIL  | 6,877         | 3,500                 | 10,377        |
| On Street Parking Reserve                              |               | 12,850                | 12,850        |
| Revenue Reserves                                       | 3,000         |                       | 3,000         |
| Capital Reserves                                       | 22,296        | 3,000                 | 25,296        |
| Additional Operational Property Disposals              | -             | 4,340                 | 4,340         |
| Temporary cash flow funding in lieu of energy savings  |               | 9,235                 | 9,235         |
| <b>Total City Fund Green Bids</b>                      | <b>32,173</b> | <b>32,925</b>         | <b>65,098</b> |

Of the 65.1m total:

- £10.4m can be funded from CIL balances and £12.9m from the On-Street Parking Reserve. It is considered that this level of draw-down from these ring-fenced sources can be accommodated from within the forecast balances available.
  - £3m from revenue reserves to meet certain project costs that cannot be capitalised (e.g. feasibility and option appraisal costs). This amount will be modelled in to the MTFP.
  - Based on the current anticipated capital reserve balances by the end of the planning period (c£70m), a maximum draw down of around £25m is considered prudent at this stage (subject to confirmation of the final position on the City Fund MTFP). This will leave a limited balance of capital reserves to cover future capital requirements (subsequent annual capital bid rounds, unforeseen costs arising from the operational estate etc) over the remainder of the planning period and beyond. Efforts will need to be renewed, drawing on our strengthened asset management practices, to identify surplus operational property for disposal to bolster the capital reserves with minimal impact on income.
  - Whilst there is no Designated Sales Pool in City Fund, it is proposed that proceeds from the disposal of operational properties be targeted to provide funding for the investment property Climate Action initiatives which amount to £4.3m.
  - The Climate Action initiatives are expected to generate significant energy savings over time; it is therefore proposed that cash flow funding of £9.2m to bridge the funding gap be identified from revenue balances over the medium term pending the receipt of these savings.
11. In conclusion, funding for new capital bids of £65.1m is a challenge presenting some risk to City Fund. It has been possible to accommodate the funding requirement across a range of ring-fenced funding sources to spread the risk, leaving a drawdown of £25m from an anticipated capital reserves balance of £70m at the end of the planning period. This is considered prudent, albeit that mitigating actions will be needed:
- to bolster up capital reserve balances through renewed efforts to identify surplus operational properties; and
  - to ensure that energy savings are maximised to backfill the temporary cashflow funding.

- Residual cash flow funding of £9.2m pending the realisation of energy savings is in accordance with the Climate Action Funding Strategy.

### City's Cash

12. City's Cash bids have reduced by £3.7m to £17.7m since October (BAU -£0.3m and Climate Action -£3.4m) before allowing for the loan facility of £15.6m which gives capital funding of £33.3m required in total. The whole of the £33.3m would fall to be funded from general balances although, as City's Cash does not hold large cash reserves, some asset disposals of either financial investments or property will be required.
13. The latest version of the City's Cash MTFP indicates a prudent level of capital investment to be £10m so a sum of £33.3m appears excessive. However, £15.6m will be recovered via loan repayments from CLSG over an anticipated 7-year period, and there will also be energy savings arising from the climate action initiatives.
14. In conclusion, whilst the £33.3m of green bids is much higher than the £10m target level, after allowing for £15.6m that will be recoverable over 7 years, the residual sum is considered to be manageable over the medium term providing future year's bids BAU bids are maintained at the current level.

### Bridge House Estates

15. Bridge House Estates green bids amount to £620k, comprising Climate Action £544k and BAU £96k. These relatively modest sums are considered to be affordable. Note that costs of Climate Action relating to BHE investment property will be funded from the designated sales pool which is part of the permanent endowment.

### **Reinforcing Financial Discipline**

16. In summary, based on the above assessments, Members should note that the plans would be affordable, sustainable and prudent in the context of wider medium-term financial plans and the additional financial disciplines outlined below.
17. As previously reported, it is evident from annual capital outcome reports that the capital programme regularly experiences significant slippage. Although service committees have the ambition to embark on capital schemes there have been project management capacity and capability issues which have caused delays and over time priorities sometimes change. Various initiatives to improve project and programme management have commenced and whilst the Project Management Academy is now in place the recruitment freeze has constrained capacity. To sit alongside initiatives to improve skills, the following financial disciplines have also been introduced:
  - a. Where projects slip by more than one year, central funding for schemes will be withdrawn unless an exceptional case is agreed by the Resource Allocation Sub Committee. It is intended to undertake a review in

February/March 2021 to identify any schemes which have not been progressed from the funding agreed as part of the fundamental review and 2020/21 annual capital bid round. This will ensure that funding is available to direct to the highest priority areas.

- b. The 'one-in, one-out' approach will be adopted when considering additional central funding requests arising outside of the annual bid process.

18. In December 2019 Members agreed in principle to provide loan funding to the Police and HRA up to the limit of how much each can afford to pay in accordance with the City Fund Minimum Revenue Provision Policy, providing that the schemes financed through the loans meet the prioritisation criteria. Approval to a loan funding provision of up to £37m across the medium term was agreed as part of the 2020/21 bids. Some £5m of this provision has been released for the Police, and the indicative sums required for 2021/22 are a further £5m for Police and £25m – £30m for HRA (which may incorporate a loan for the HRA climate action initiatives £2.12m). Approval to carry over the remainder of last year's provision is therefore sought at this stage, with the final sums required to be built into the final version of the City Fund MTFP to confirm affordability.

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**Appendices:** 2021/22 Annual Capital Bids – Green/Amber/Red